

August 2002



# North Dakota REV-E-NEWS

**From Rod Backman, Director  
Office of Management and Budget  
600 E. Blvd. Ave. , Dept 110 - Bismarck, ND 58505-0400**

Revenue collections in July were quite strong and as a result, biennium-to-date collections are now \$13.2 million over what was anticipated in the preliminary revenue forecast. Although this is good news, caution must be made that one month of strong collections does not necessarily mean our trend is turning around yet.

According to Economy.com, state governments should see an improvement in fiscal

conditions in the near term. They believe the weakest state revenue source will remain individual income taxes due to low realizations on capital gains, such as we have experienced in North Dakota. Nationally, around \$7 trillion in stockholder wealth has evaporated since the bear market began in early 2000. Only the bear markets following the 1929 stock market crash and the 1973 oil embargo experienced larger losses.

## Preliminary Revenue Forecast

The preliminary revenue forecast was completed in July and is shown on page four of this newsletter. This regularly scheduled forecast presents a revised revenue forecast for the 2001-03 biennium and the first look at general fund revenues for the 2003-05 biennium.

The revised forecast for the 2001-03 biennium shows a net decrease of \$50 million compared to the revenue forecast prepared in December 2001. Individual income tax collections show the largest decrease, \$49.8 million, followed by corporate income tax collections, \$14.4 million. The decrease in individual income tax collections is due to capital losses and large decreases in realized capital gains.

As a means to deal with the shortfall anticipated in the current biennium, the Governor called for a 1.05% allotment, which amounted to \$18.3 million and also proposed the transfer of an additional \$25 million from

the Bank of North Dakota. On August 22 the Budget Section approved the request to transfer \$25 million from reserves at BND. Transfers up to \$25 million will be made at the discretion of the director of OMB, and only the amount necessary to cover the revenue shortfall will be transferred.

The preliminary revenue forecast for the 2003-05 biennium shows net growth of \$19.6 million over the December 2001 revenue forecast. The forecast shows an increase of \$36.4 million in sales tax and an increase of \$8.3 million in motor vehicle excise tax, however shows a decrease of \$14.4 million in individual income taxes and a decrease of \$11.3 million in corporate income tax collections.

The next revenue forecast will be prepared in November and will be the basis for the Governor's executive budget recommendation.

## Revenue Variances

The following comments are based on July revenue collections compared to the July 2002 preliminary revenue forecast.

Sales tax collections exceeded projections in July by \$3.8 million or 11.9 percent.

After several months of falling below the monthly projection, individual income tax collections were \$2.4 million or 13.5 percent ahead of the July projections based on the new forecast. The overage for the month of July is attributed primarily to strong withholdings during the month.

Because of the large corporate refunds expected next quarter, the assumption was made

for cash-flow purposes, that collections for the first three months of the fiscal year would go into the refund reserve account. Gross corporate income tax collections for July were \$7,532,908, of which \$7.5 million was transferred into the refund reserve account, and the remaining \$32,902 is reported as revenue for the month.

Departmental collections exceeded July projections by nearly \$3.0 million or 46.4 percent primarily as a result of increased receipts for intergovernmental transfers in the Department of Human Services.

**STATEMENT OF GENERAL FUND REVENUES AND FORECASTS**  
***Compared to July 2002 Preliminary Forecast***  
**2001-03 BIENNIUM**  
**JULY 2002**

REVENUES AND TRANSFERS	July 2002 Preliminary Forecast	FISCAL MONTH			July 2002 Preliminary Forecast	BIENNIUM TO DATE		
		Actual	Variance	Percent		Actual	Variance	Percent
Sales Tax	31,999,000.00	\$ 35,818,988.47	\$ 3,819,988.47	11.9%	\$ 339,250,748.00	\$ 344,483,321.65	\$ 5,232,573.65	1.5%
Motor Vehicle Excise Tax	4,628,000.00	4,980,034.04	352,034.04	7.6%	65,435,256.00	65,659,708.66	224,452.66	0.3%
Individual Income Tax	18,103,000.00	20,547,137.63	2,444,137.63	13.5%	214,735,355.00	217,304,229.10	2,568,874.10	1.2%
Corporate Income Tax		32,902.28	32,902.28	100.0%	41,840,973.00	41,407,199.53	(433,773.47)	-1.0%
Insurance Premium Tax	(500.00)	0.00	500.00	-100.0%	23,300,682.00	23,347,203.94	46,521.94	0.2%
Financial Institutions Tax		406,297.00	406,297.00	100.0%	2,501,892.00	2,971,845.04	469,953.04	18.8%
Oil & Gas Production Tax	1,446,000.00	2,205,528.53	759,528.53	52.5%	21,443,849.00	22,736,255.97	1,292,406.97	6.0%
Gaming Tax	313,000.00	462,514.17	149,514.17	47.8%	13,288,000.00	14,199,736.18	911,736.18	6.9%
Interest Income	278,000.00	83,463.85	(194,536.15)	-70.0%	5,866,000.00	5,613,155.65	(252,844.35)	-4.3%
Oil Extraction Tax	994,000.00	1,030,655.17	36,655.17	3.7%	11,644,638.00	11,497,392.38	(147,245.62)	-1.3%
Cigarette & Tobacco Tax	1,754,000.00	1,710,135.28	(43,864.72)	-2.5%	21,957,046.00	21,877,717.02	(79,328.98)	-0.4%
Departmental Collections	6,438,050.00	9,427,501.66	2,989,451.66	46.4%	34,797,050.00	37,739,392.39	2,942,342.39	8.5%
Wholesale Liquor Tax	546,819.00	538,294.87	(8,524.13)	-1.6%	6,082,061.00	6,032,077.24	(49,983.76)	-0.8%
Coal Conversion Tax	1,969,000.00	1,902,174.35	(66,825.65)	-3.4%	25,373,821.00	25,230,676.08	(143,144.92)	-0.6%
Mineral Leasing Fees	300,000.00	485,912.79	185,912.79	62.0%	2,846,000.00	3,465,497.47	619,497.47	21.8%
Bank of North Dakota-Transfer					30,000,000.00	30,000,000.00		0.0%
State Mill & Elevator-Transfer								
Gas Tax Admin-Transfer	170,424.00	170,424.00	-	0.0%	852,120.00	852,120.00	-	0.0%
Other Transfers					70,850.00	85,309.31	14,459.31	100.0%
<b>Total Revenues and Transfers</b>	<b>68,938,793.00</b>	<b>79,801,964.09</b>	<b>10,863,171.09</b>	<b>15.8%</b>	<b>861,286,341.00</b>	<b>874,502,837.61</b>	<b>13,216,496.61</b>	<b>1.5%</b>

**COMPARISON TO PREVIOUS BIENNIUM REVENUES  
2001-03 BIENNIUM  
JULY 2002**

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	July 2000	July 2002	Variance	Percent	1999-01	2001-03	Variance	Percent
Sales Tax	\$ 26,423,101.68	\$ 35,818,988.47	\$ 9,395,886.79	35.6%	\$ 326,584,149.04	\$ 344,483,321.65	\$ 17,899,172.61	5.5%
Motor Vehicle Excise Tax	3,989,789.96	4,980,034.04	990,244.08	24.8%	59,261,747.74	65,659,708.66	6,397,960.92	10.8%
Individual Income Tax	19,375,911.89	20,547,137.63	1,171,225.74	6.0%	216,477,236.39	217,304,229.10	826,992.71	0.4%
Corporate Income Tax	1,704,033.07	32,902.28	(1,671,130.79)	-98.1%	49,232,034.45	41,407,199.53	(7,824,834.92)	-15.9%
Insurance Premium Tax	(490.00)		490.00	-100.0%	19,294,459.99	23,347,203.94	4,052,743.95	21.0%
Financial Insitutions Tax	229.00	406,297.00	406,068.00	1773.2%	2,382,440.16	2,971,845.04	589,404.88	24.7%
Oil & Gas Production Tax	2,693,658.73	2,205,528.53	(488,130.20)	-18.1%	23,756,658.07	22,736,255.97	(1,020,402.10)	-4.3%
Gaming Tax	743,312.92	462,514.17	(280,798.75)	-37.8%	13,919,959.22	14,199,736.18	279,776.96	2.0%
Interest Income	368,048.76	83,463.85	(284,584.91)	-77.3%	9,661,994.73	5,613,155.65	(4,048,839.08)	-41.9%
Oil Extraction Tax	1,353,002.90	1,030,655.17	(322,347.73)	-23.8%	14,066,573.32	11,497,392.38	(2,569,180.94)	-18.3%
Cigarette & Tobacco Tax	1,801,640.82	1,710,135.28	(91,505.54)	-5.1%	23,143,374.41	21,877,717.02	(1,265,657.39)	-5.5%
Departmental Collections	817,079.05	9,427,501.66	8,610,422.61	1053.8%	22,065,420.84	37,739,392.39	15,673,971.55	71.0%
Wholesale Liquor Tax	1,262.60	538,294.87	537,032.27	42533.8%	5,431,785.34	6,032,077.24	600,291.90	11.1%
Coal Severance Tax	864,706.59	0.00	(864,706.59)	-100.0%	12,071,165.64	775,793.99	(11,295,371.65)	-93.6%
Coal Conversion Tax	999,019.54	1,902,174.35		0.0%	13,489,756.87	24,454,882.09	10,965,125.22	81.3%
Mineral Leasing Fees	434,646.64	485,912.79	51,266.15	11.8%	4,001,571.05	3,465,497.47	(536,073.58)	-13.4%
Bank of North Dakota-Transfer					15,000,000.00	30,000,000.00	15,000,000.00	0.0%
State Mill & Elevator-Transfer								
Gas Tax Admin-Transfer	172,576.00	170,424.00	(2,152.00)	2152.0%	862,880.00	852,120.00	(780,570.69)	-90.5%
Other Transfers					1,858,651.23	82,309.31	1,776,341.92	95.6%
<b>Total Revenues and Transfers</b>	<b>61,741,530.15</b>	<b>79,801,964.09</b>	<b>18,060,433.94</b>	<b>29.3%</b>	<b>832,561,858.49</b>	<b>874,499,837.61</b>	<b>41,937,979.12</b>	<b>5.0%</b>

# Preliminary Revenue Forecast

REVENUES AND TRANSFERS	2001-03 BIENNIUM			2003-05 BIENNIUM	
	2001 December Forecast	01-03 Revised Forecast	Change	Preliminary Forecast	Change from 2001-03 December Forecast
Sales and Use Tax	\$ 642,393,000	\$ 642,969,748	\$ 576,748	\$ 678,755,000	\$ 36,362,000
Motor Vehicle Excise Tax	112,698,000	118,425,256	5,727,256	121,030,000	8,332,000
Individual Income Tax	447,007,000	397,216,355	(49,790,645)	432,618,000	(14,389,000)
Corporate Income Tax	99,069,000	84,701,973	(14,367,027)	87,746,000	(11,323,000)
Business Privilege/Financial Inst. Tax	4,800,000	5,101,892	301,892	5,200,000	400,000
Oil & Gas Production Tax	38,431,000	38,115,849	(315,151)	36,754,000	(1,677,000)
Oil Extraction Tax	23,569,000	22,944,638	(624,362)	25,246,000	1,677,000
Cigarette and Tobacco Tax	38,796,000	39,738,046	942,046	37,635,000	(1,161,000)
Coal Conversion Tax	48,372,000	47,266,821	(1,105,179)	48,413,000	41,000
Insurance Premium Tax	39,896,000	46,633,682	6,737,682	47,665,000	7,769,000
Wholesale Liquor Tax	10,974,106	11,159,550	185,444	11,647,514	673,408
Gaming	21,825,555	23,928,000	2,102,445	20,178,000	(1,647,555)
Departmental Collections	49,843,480	55,647,050	5,803,570	53,382,211	3,538,731
Interest	16,398,056	10,889,000	(5,509,056)	14,868,000	(1,530,056)
Mineral Leasing Fees	5,465,373	4,976,000	(489,373)	3,870,000	(1,595,373)
Bank of North Dakota Profits - Transfer	60,000,000	60,000,000	-	60,000,000	-
Student Loan Trust Fund Interest	9,000,000	9,000,000	-	9,000,000	-
State Mill Profits - Transfer	6,000,000	6,000,000	-	3,000,000	(3,000,000)
Gas Tax Administration - Transfer	1,363,392	1,363,392	-	1,363,392	-
Other Transfers	* 15,578,922	15,349,772	(229,150)	12,733,820	(2,845,102)
<b>Total Revenue and Transfers</b>	<b>\$ 1,691,479,884</b>	<b>\$ 1,641,427,024</b>	<b>\$ (50,052,860)</b>	<b>\$ 1,711,104,937</b>	<b>\$ 19,625,053</b>
* 2001-03 Other Transfers Include:					
Land and Minerals Trust Fund	\$ 3,545,102				
Water Development Trust Fund	9,733,820				
Financial Inst. Reg. Fund	300,000				
Developmental Dis. Loan Sale	2,000,000				
	<u>\$ 15,578,922</u>				
* 2003-05 Other Transfers Include:					
Land and Minerals Trust Fund	\$ 3,000,000				
Water Development Trust Fund	9,733,820				
	<u>\$ 12,733,820</u>				

Comments or Questions???

Call Rod Backman, Director  
Pam Sharp, Deputy Director  
Phone: 701-328-4904  
Fax : 701-328-3230  
E-mail : [sfrankli@state.nd.us](mailto:sfrankli@state.nd.us)

Visit the North Dakota web site at [www.discovernd.com](http://www.discovernd.com)

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ADDRESS SERVICE REQUESTED  
Office of Management and Budget  
600 East Blvd. Ave., Dept 110  
Bismarck, ND 58505-0400

